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Message Text

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16
ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

NEA-14 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00

DODE-00 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07

OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08

TRSE-00 FEA-02 PA-04 PRS-01 IO-14 DRC-01 /173 W
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O 080844Z JUL 74
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 3210

C O N F I D E N T I A L JAKARTA 8350

EO 11652: GDS
TAGS: ENRG, ID
SUBJ: ENERGY: DEMARCHE OPPOSING HIGH OIL PRICES

REF: A. STATE 145990 B. JAKARTA 8197

1. SUMMARY: EMBASSY FULLY APPRECIATES NEED FOR DEMARCHE TO INDONESIANS ON OIL PRICES. IN ORDER MAKE DEMARCHE MORE EFFECTIVE, WE ARE REQUESTING ADDITIONAL GUIDANCE ON POINTS ALREADY RAISED BY INDONESIANS IN DISCUSSIONS WITH US REGARDING THIS PRICE INCREASE AND ARE SUGGESTING SOMEWHAT REVISED DEMARCHE. END SUMMARY

2. EMBASSY FULLY APPRECIATES CONCERN WHICH INCREASE IN INDONESIAN OIL PRICES CREATES AND SPECIAL PROBLEMS RELATING CONGRESSIONAL AND PUBLIC ATTITUDES TOWARD INDONESIA. WE HAVE BEEN PURSUING EFFORTS DETERMINE GOI JUSTIFICATION FOR PRICE INCREASE. RESULTS FORWARDED REFTEL B WHICH DEPARTMENT MAY HAVE RECEIVED AFTER INSTRUCTIONS IN REFTEL A. SINCE PRICE INCREASE, I HAVE ALSO BEEN SEEKING APPOINTMENT WITH GENERAL IBNU OF PERTAMINA BUT THIS HAS NOT COME THROUGH. HE LEAVES
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JULY 10 FOR 2-3 WEEK TRIP TO JAPAN, US AND EUROPE.

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3. I PROPOSE SEEK EARLY APPOINTMENTS WITH SJARIF THAJEB, ACTING FONMIN (WHO WILL UNDERSTAND US DOMESTIC ASPECTS THIS QUESTION), MINISTER OF MINES SADLI, AND OIL AND GAS DIRECTOR WIJARSO.

4. AS REFTEL B INDICATES, INDONESIANS LIKELY RESPOND THAT PRICE INCREASE WAS JUSTIFIED BY THEIR OWN MARKET ANALYSIS (PREPARED BY US CONSULTANT) AND BY PAST INDONESIAN RESTRAINT IN FOLLOWING OTHER PRICE INCREASES. ON BASIS OF CONVERSATIONS WE HAVE HAD WITH INDONESIANS IT IS LIKELY THEY WOULD RESPOND TO DEMARCHE AS PROPOSED BY DEPARTMENT CLAIMING:

(A) THEY HAVE LITTLE EVIDENCE TO SUGGEST OIL PRICE TREND IS TURNING DOWNWARD EXCEPT FOR CERTAIN UN-REPRESENTATIVE SPOT SALES. (FYI: VIRTUALLY WITHOUT EXCEPTION OIL COMPANY REPRESENTATIVES, BOTH PRODUCERS AND CONSUMERS, WHO HAVE VISITED JAKARTA RECENTLY AND HAVE TALKED TO EMBASSY HAVE EXPRESSED BELIEF PRICE TREND IS UPWARD, OR AT BEST LEVELLING OFF. OBVIOUSLY MANY OF THEM AND ARTHUR D LITTLE (REFTEL A) ARE TELLING GOI SAME STORY. END FYI)

(B) THEIR PRICES ARE NOT OUT OF LINE WITH WHAT IRAN AND PERSIAN GULF STATES ARE CHARGING WHEN ALLOWANCE IS MADE FOR SULPHUR PREMIUM AND FREIGHT DIFFERENTIAL TO JAPAN. GOI RECOGNIZES THAT EXCEEDINGLY HIGH SPOT BIDS ARE THING OF THE PAST BUT FIRMLY BELIEVE PRICES IN PERSIAN GULF AND IRAN CONTINUING TO RISE. THEY TAKE YAMANI'S STATEMENTS WITH GRAIN OF SALT SINCE THEY SUSPECT "BUY BACK" PRICE ACTUALLY REPRESENTS INCREASE. AS FAR AS WE KNOW, SAQQAF DID NOT SPEAK TO GOI ABOUT OIL PRICES WHEN HE WAS HERE.

5. WE BELIEVE OUR DEMARCHE WOULD BE MORE EFFECTIVE IF DEPARTMENT CAN PROVIDE FURTHER COMMENTS ON EXPECTED INDONESIAN RESPONSE AND POSSIBLE ARGUMENTS TO USE WITH POINTS (A) AND (B) ABOVE. WE DO NOT WISH TO ENGAGE CONFIDENTIAL

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IN ARGUMENT WITH GOI ON SPECIFICS OF PRICE INCREASE BUT BELIEVE WE SHOULD HAVE FIRM FACTS TO SUPPORT STATE-MENTS PROPOSED IN DEMARCHE.

6. FURTHER, IN ORDER TO MAKE DEMARCHE ON ISSUE WHICH INDONESIANS REGARD AS WITHIN THEIR SOVEREIGN AUTHORITY, PROPOSE REVISE DEMARCHE AND SPEAK ALONG FOLLOWING LINES:

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(A) AS GOI KNOWS USG HAS BEEN DEEPLY CONCERNED WITH IMPACT ON WORLD ECONOMY OF RISING PETROLEUM PRICES. US AMBASSADORS IN OIL PRODUCING STATES HAVE BEEN ASKED TO EXPRESS THIS CONCERN IN HOPES OF CREATING COMMON INTERESTS IN PRICE RESTRAINT.

(B) CONTINUAL RISE IN OIL PRICES IS DANGEROUSLY STRAINING WORLD ECONOMY AND WORLD DEVELOPMENT IS BEING RETARDED. OIL PRODUCING STATES HAVE NOT YET FOUND EFFECTIVE FORMULA FOR ASSISTING HARD HIT, POORER, DEVELOPING COUNTRIES. THEIR INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR TOTAL AID RECEIPTS AND COULD LEAD IN SOME CASES TO VIRTUAL ECONOMIC COLLAPSE.

(C) RECENT PRICE INCREASE BY INDONESIA HAS AWAKENED SPECIAL CONCERN SINCE IT APPEARS CONTRARY TO TREND OF LEVELING PRICES WHICH APPEARS TO MARK LAST OPEC DECISIONS. WE APPRECIATE THAT INDONESIA MAINTANED ITS SUPPLIES OF OIL TO US DURING RECENT CRISIS AND SHOWED INITIAL PRICE RESTRAINT. WE ARE CONCERNED, HOWEVER, THAT ADDITIONAL INCREMENTS, HOWEVER SMALL, WILL COMPOUND SERIOUS WORLD PROBLEM. WE BELIEVE MAXIMUM MEANINGFUL COOPERATION AND CONSULTATION BETWEEN PRODUCING AND CONSUMING NATIONS VITAL TO INTERNATIONAL ECONOMIC SYSTEM. WE WILL APPRECIATE VIEWS OF GOI ON WAY THEY SEE FUTURE AND ON WAYS IN WHICH CURRENT TRENDS CAN BE REVERSED.

7. WHILE APPRECIATING AND UNDERSTANDING DEPARTMENT'S STRONG VIEWS WE FIRMLY BELIEVE IT WOULD BE COUNTERPRODUCTIVE HERE TO REQUEST GOI TO RECONSIDER LATEST PRICE INCREASE OR TO PEG IT TO US CONSUMER. FURTHER, I HAVE FOUND THAT DISCUSSIONS OF INDONESIA'S IMAGE IN US MORE EFFECTIVELY DISCUSSED CONFIDENTIAL

WITH SELECTED INDIVIDUALS OUTSIDE FORMAL DEMARCHES. WE BELIEVE OUR CONCERN SHOULD BE BROUGHT TO GOI ATTENTION BUT MORE IN CONTEXT WORLDWIDE PICTURE AND SLANTED TOWARD FUTURE RATHER THAN PAST.

8. IN OUR VIEW IT IS MOST UNLIKELY THAT THE GOI WILL RESCIND THE RECENT INCREASE AND WOULD ONLY MAKE A DOWNWARD ADJUSTMENT IF DICTATED BY MARKET CONDITIONS AS THEY SAW THEM. THIS POSSIBLE ONLY IF COMPARABLE CRUDE WERE AVAILABLE AT LOWER DELIVERED COST TO JAPAN, INDONESIA'S PRINCIPAL MARKET, OR IF JAPANESE REFUSED TO PURCHASE INDO CRUDE AT PRESENT PRICE. WHILE OVER 20 PERCENT OF INDO EXPORTS DESTINED FOR US, ABSOLUTE AMOUNT IS RELATIVELY SMALL AND PROBABLY COULD BE EASILY DIVERTED TO OTHER MARKETS, ESPECIALLY IF PRICE WERE

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LOWER. NEXT ROUND OF GOI/PERTAMINA/OIL COMPANY PRICE
DISCUSSIONS NOW SCHEDULED FOR SEPTEMBER.

9. DEPARTMENT'S COMMENTS WOULD BE APPRECIATED.
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Control Number: n/a
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Draft Date: 08 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
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